



Office of the State Auditor

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COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

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June 11, 2001

Ms. Sybil B. Neaves, Director of Reimbursement  
Integrated Health Services, Inc.  
The Highlands  
910 Ridgebrook Road  
Sparks, Maryland 21152


Re AC# 3-MMP-J8 – Magnolia Place, Inc. at Spartanburg

Dear Ms. Neaves

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

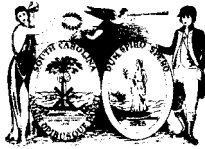
**MAGNOLIA PLACE, INC. AT SPARTANBURG  
SPARTANBURG, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 1999  
AC# 3-MMP-J8**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 14, 2001

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Place, Inc. at Spartanburg, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

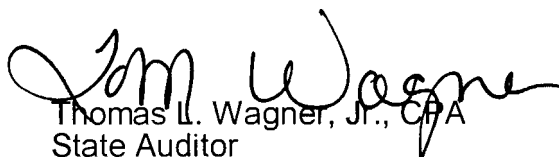
The procedures and the associated findings are as follows:

- 1 We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Place, Inc. at Spartanburg, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Place, Inc. at Spartanburg dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
February 14, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**MAGNOLIA PLACE, INC. AT SPARTANBURG**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 1999  
AC# 3-MMP-J8

10/01/99-  
09/30/00

Interim reimbursement rate (1)	\$95.92
Adjusted reimbursement rate	<u>93.75</u>
Decrease in reimbursement rate	\$ <u><u>2.17</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1999 Through September 30, 2000  
AC# 3-MMP-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$43.42	\$44.29	
Dietary		9.43	10.24	
Laundry/Housekeeping/Maint.		<u>8.48</u>	<u>8.89</u>	
Subtotal	\$ <u>2.09</u>	61.33	63.42	\$61.33
Administration & Med. Rec.	\$ <u>.88</u>	<u>10.51</u>	<u>11.39</u>	<u>10.51</u>
Subtotal		71.84	<u>\$74.81</u>	71.84
<u>Costs Not Subject to Standards:</u>				
Utilities		2.14		2.14
Special Services		1.36		1.36
Medical Supplies & Oxygen		4.22		4.22
Taxes and Insurance		1.19		1.19
Legal Fees		<u>.05</u>		<u>.05</u>
<b>TOTAL</b>		<u>\$80.80</u>		80.80
Inflation Factor (3.00%)				2.42
Cost of Capital				7.70
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				.88
Cost Incentive				2.09
Effect of \$1.75 Cap on Cost/Profit Incentives				(1.22)
Laundry Add-On				.75
Nurse Aide Staffing Add-On				<u>.33</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$93.75</u>

**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MMP-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,377,266	\$ 1,563 (2)	\$ -	\$1,378,829
Dietary	298,972	517 (2)	-	299,489
Laundry	132,363	678 (2) 1,848 (5)	45,004 (3)	89,885
Housekeeping	116,122	42 (2)	-	116,164
Maintenance	64,769	13 (2)	1,450 (3)	63,332
Administration & Medical Records	389,903	10,481 (2)	16,535 (4) 50,069 (5)	333,780
Utilities	67,474	634 (2)	-	68,108
Special Services	53,959	-	2,983 (5) 7,742 (6)	43,234
Medical Supplies & Oxygen	147,914	-	13,928 (2)	133,986
Taxes & Insurance	37,665	-	-	37,665
Legal Fees	1,730	-	-	1,730
Cost of Capital	247,739	14,322 (7) <u>2,237 (8)</u>	13,274 (1) <u>6,571 (5)</u>	244,453
Subtotal	2,935,876	32,335	157,556	2,810,655



**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MMP-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	80,540	-	-	80,540
Non-Allowable	368,863	46,454 (3) 16,535 (4) 57,775 (5) <u>7,742 (6)</u>	14,322 (7) 2,237 (8) <u>          </u>	480,810 <u>          </u>
Total Operating Expenses	<u>\$3,385,279</u>	<u>\$160,841</u>	<u>\$174,115</u>	<u>\$3,372,005</u>
Total Patient Days	<u>31,755</u>	<u>-</u>	<u>-</u>	<u>31,755</u>
TOTAL BEDS	<u>88</u>			

**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MMP-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 33,185	
	Cost of Capital		\$ 13,274
	Other Equity		19,911
	To adjust the useful life of "New Furnishings" to comply with State Plan Guidelines State Plan, Attachment 4.19D		
2	Nursing	1,563	
	Dietary	517	
	Laundry	678	
	Housekeeping	42	
	Maintenance	13	
	Administration	10,481	
	Utilities	634	
	Medical Supplies & Oxygen		13,928
	To properly classify expenses DH&HS Expense Checklist		
3	Nonallowable	46,454	
	Laundry		45,004
	Maintenance		1,450
	To disallow expenses not adequately documented HIM-15-1, Section 2304		
4	Nonallowable	16,535	
	Administration		16,535
	To adjust Premiere fees to allowable HIM-15-1, Section 2304		

**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MMP-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	57,775	
	Laundry	1,848	
	Administration		50,069
	Therapy		2,983
	Cost of Capital		6,571
	To adjust Magnolia Group, Inc. - Home Office; Magnolia Group, Inc. - Laundry; and IHS expense HIM-15-1, Sections 1000 and 2304 State Plan, Attachment 4.19D		
6	Nonallowable	7,742	
	Special Services		7,742
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
7	Cost of Capital	14,322	
	Nonallowable		14,322
	To adjust capital return State Plan, Attachment 4.19D		
8	Cost of Capital	2,237	
	Nonallowable		2,237
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$194,026</u>	<u>\$194,026</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MAGNOLIA PLACE, INC. AT SPARTANBURG**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MMP-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>88</u>
Deemed Asset Value	3,091,440
Improvements Since 1981	184,566
Accumulated Depreciation at 9/30/98	<u>(558,649)</u>
Deemed Depreciated Value	2,717,357
Market Rate of Return	<u>.063</u>
Total Annual Return	171,193
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	171,193
Depreciation Expense	77,464
Amortization Expense	216
Capital Related Income Offsets	(4,420)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	244,453
Total Patient Days (Actual)	<u>31,755</u>
Cost of Capital Per Diem	\$ <u><u>7.70</u></u>

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